

BEFORE THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE

88 OCT 12 PM 4 04

IN RE: TENNESSEE CONSUMER )  
ADVOCATE DIVISION -- REQUEST )  
FOR RULEMAKING AFFECTING )  
RULES FOR ELECTRIC COMPANIES )  
(PROPOSED RULES FOR COST )  
ALLOCATIONS AND AFFILIATE )  
TRANSACTIONS; AND REVISIONS TO )  
REFLECT NAME CHANGE OF THE )  
TENNESSEE REGULATORY )  
AUTHORITY, ETC. )

EXECUTIVE SECRETARY

DOCKET NO. 98-00690

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CONSUMER ADVOCATE DIVISION'S STATEMENT OF  
RECENT NARUC ACTION ON AFFILIATE RULES

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On October 2, 1998, Kingsport Power petitioned the Authority to initiate rulemaking to implement changes in certain Rules<sup>1</sup> for Electric Companies in the State of Tennessee. On November 3, 1998, the Consumer Advocate Division of the Office of the Attorney General and Reporter filed to expand the rulemaking proceeding to correct various errors in the existing rules; to change references to the former Tennessee Public Service in the existing rules to Tennessee Regulatory Authority; and to adopt the Cost Allocation and Affiliate Transactions Rules consistent with the draft guidelines adopted by the National Association of Regulatory Commissions (NARUC) Subcommittee on Accounts at its semiannual meeting in September 1998.

Subsequently, Kingsport Power raised the issue that the Cost Allocations and Affiliate Transactions Rules proposed by the Consumer Advocate Division were based on the draft

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<sup>1</sup> The proposed rule changes relate to electric meters.

guidelines adopted by the NARUC Subcommittee on Accounts that, at that time, had not been adopted by the NARUC as a body. It was agreed that the Authority would publish the proposed Cost Allocation and Affiliate Transactions Rules as required in the Tennessee Administrative Register but would defer action on those rules until the NARUC had reviewed the proposed guidelines at its Winter 1999 Committee Meeting in Washington, D.C.

During its 1999 Winter meeting, the NARUC designated Commissioner J. Jerry Deason of the Florida Public Service Commission, Commissioner Edward Holmes of the Kentucky Public Service Commission, and Commissioner HULLIHEN MOORE of the Virginia State Corporation Commission to review the Staff Subcommittee's proposed guidelines and provide recommendations at the NARUC 1999 Summer Committee meeting. On July 23, 1999, the NARUC Board of Directors adopted by resolution Guidelines for Cost Allocations and Affiliate Transactions that reflected changes recommended by the three Commissioners. Although the guidelines adopted by the NARUC were not identical to those proposed by the NARUC Staff Subcommittees, the revisions did not change principles or otherwise materially change the guidelines from those proposed by the Staff Subcommittees. For the convenience of the Authority and its staff, the Consumer Advocate Division is filing as Attachment A, a redline/strikeout comparison of the guidelines adopted by the NARUC with those proposed by the NARUC Staff Subcommittee. The NARUC resolution adopting the guidelines is provided as Attachment B. The guidelines adopted by the NARUC Staff Subcommittee are provided as Attachment C.

The Consumer Advocate Division is also filing as Attachment D a copy of the

proposed Cost Accounting and Affiliate Transactions Rules as published by the Authority in the March 15, 1999 Tennessee Administrative Register modified to reflect changes made in the guidelines. Attachment E is a copy of the proposed Cost Allocation and Affiliate Transactions Rules as published in the Tennessee Administrative Register. A redline/strikeout comparison of the published and the proposed rules as modified is provided as Attachment F.

This 12<sup>th</sup> day of October, 1999.

Respectfully submitted,

Vance L. Broemel

Vance L. Broemel, Assistant Attorney General  
Consumer Advocate Division  
Attorney General's Office  
425 5th Ave. North  
Nashville, TN 37243

#### CERTIFICATE OF SERVICE

I hereby certify that a copy of this Petition for Rulemaking was served on the parties listed below by mail on this the 12<sup>th</sup> day of October, 1999.

T. Arthur Scott, Jr.  
Hunter, Smith & Davis  
Post Office Box 3740  
Kingsport, Tennessee 37664

Johannes W. Williams  
Director, Industry Legal Affairs  
Edison Electric Institute  
701 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

Vance L. Broemel  
Vance L. Broemel

## **ATTACHMENT A**

### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

#### **GUIDELINES FOR COST ALLOCATIONS AND AFFILIATE TRANSACTIONS**

These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocation allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocation allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that dictate govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 titled entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, ~~non-structural~~ non-structural safeguards as contained within in these guidelines may not be sufficient in preventing to prevent market power problems in strategic

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### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

~~marketed~~ markets such as the generation market. ~~Market power is defined as~~ Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions. ~~Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its unregulated affiliates.~~

#### A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.
2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is ~~engaged~~ contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
5. ~~Combinations or Negotiated~~ - combinations of other methods, which may include "the higher of" or "the lower of" several methodologies or other negotiated methods.
- 6.5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

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### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

76. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

87. Direct Costs - costs which can be specifically identified with a particular service or product.

9 8. Fully Allocated costs - ~~services or products bear~~ the sum of the direct costs plus an appropriate ~~a proportional~~ share of indirect costs.

~~10 9. Incremental pricing - pricing new services or products - support only the incremental -~~ on basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs..

~~11 10~~ Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Driven Pricing - ~~costs are allocated to services or products on a basis equivalent to the costs that would be incurred in the competitive~~ a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. ~~Non-regulated~~ Regulated - ~~refers to services or products that are not~~ which is subject to regulation by regulatory authorities.

14. ~~Regulated~~ Subsidization - ~~refers to services~~ the recovery of costs from one class of customers or ~~products~~ business unit that are ~~subject~~ attributable to ~~regulation by regulatory authorities~~ another.

## **B. COST ALLOCATION PRINCIPLES**

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

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### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

1. To the maximum extent practicable, in consideration of ~~administrative costs-cost-benefit standards~~, costs should be collected and classified on a direct basis for each asset, service or product provided.
2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental, ~~market-driven~~, ~~negotiated~~ cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.
3. To the extent possible, all direct and allocated costs between regulated and non-regulated ~~products and services shall and~~ products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation ~~shall~~ should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.
4. The allocation methods ~~shall~~ should apply to the regulated entity's affiliates in order to prevent ~~cross-subsidization~~ subsidization from, and ensure equitable cost sharing ~~between~~, among the regulated entity and its affiliates, and vice versa.
5. All costs ~~shall~~ should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, ~~shall~~ should be identified and used to allocate the cost between regulated and non-regulated services or products.
7. The indirect costs of each business unit, including the allocated costs of shared services ~~shall~~, should be spread to the services or products to which they relate using relevant cost allocators.

#### C. COST ALLOCATION MANUAL (NOT TARIFFED)

## ATTACHMENT A

### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

Each entity that provides both regulated and non-regulated services or products ~~shall~~ should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.
2. A description of all ~~assets~~, services and products provided ~~between to and from the regulated entity and each of its affiliates. Also, annual revenue by each of these services and products should be provided~~
3. A description of all ~~assets~~, services and products provided by the regulated entity to non-affiliates. ~~Also, annual revenue by each of these services and products should be provided.~~
4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

~~Entities will follow Statement of Financial Accounting Standards (SAS) No. 131, Disclosures about Segments of an Enterprise and Related Information as required and will make the disclosure available upon request to jurisdictional regulatory authorities.~~

#### D. AFFILIATE TRANSACTIONS (NOT ~~TARIFFED~~ TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive



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### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, ~~and products, and the use of assets~~ provided by a regulated entity to its non-regulated affiliates ~~shall~~ should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, ~~market-driven, negotiated pricing~~ or other pricing mechanisms as determined by the regulator. ~~Pricing below fully allocated costs but above incremental costs may be appropriate given market prices and regulatory approval. As required by regulators, utilities shall provide adequate market and other relevant information that justifies pricing below fully allocated costs.~~

2. Generally, the price for services, ~~and products, and the use of assets~~ provided by a non-regulated ~~an affiliated company to a regulate~~ affiliate should be at the lower of fully allocated cost or prevailing market price ~~as determined by the regulator~~. Under appropriate circumstances, prices for ~~affiliated company provision of services and products~~ could be based on incremental cost, ~~market-driven, negotiated prices or a competitive bidding process~~, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. ~~If no market exists for the asset, a negotiated price no lower than net book value could be acceptable.~~ Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market or net book value, except as otherwise required by law or regulation. To determine prevailing market value, ~~an An appraisal to date asset valuation may~~ should be required at certain ~~according to~~ value thresholds as determined by the regulator.

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### **Comparison of the October 1998 Draft with the Guidelines for Cost Allocations and Affiliate Transactions adopted by the NARUC at its 1999 Summer Meeting**

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation ~~if longer than three years.~~

#### E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to ~~jurisdictional-regulated~~ services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the ~~previously mentioned~~ guidelines. Regulators ~~should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary evaluate whether subsidization exists.~~ The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise audit process and impair audit independence.
2. Each regulated entity's cost allocation documentation ~~shall~~ should be made available to the company's internal auditors for periodic review of the allocation policy and process to any jurisdictional regulatory authority when appropriate and upon request. ~~Further, any jurisdictional regulatory authority may request in independent attestation engagement of the CAM~~
3. ~~Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM.~~ The cost of any independent attestation engagement, associated with the CAM, ~~shall~~ should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.
4. Audit of the CAM does not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.
5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

ATTACHMENT B

NARUC Resolution  
Adopting Cost  
Allocation and  
Affiliate Transactions  
Guidelines.

**Resolution Regarding Cost Allocation Guidelines for the Energy Industry**

WHEREAS, There is ongoing concern regarding potential cross-subsidization between the regulated monopoly operations and the non-regulated businesses of electric and gas utilities; and

WHEREAS, Utilities are adopting various business strategies to adjust to the changing retail markets, including forming alliances and creating subsidiaries, divisions and partnerships to participate in non-regulated, competitive markets; and

WHEREAS, State utility commissions are examining and adopting various policies to monitor the competitive activities of regulated energy utilities; and

WHEREAS, State utility commissions are examining and adopting policies and rules concerning potential cross-subsidies between regulated utilities and non-regulated affiliates including pricing of assets, products and services; and

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) requested the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations"; and

WHEREAS, The Staff Subcommittee on Accounts together with the Staff Subcommittees on Gas and Strategic Issues have prepared for NARUC's consideration "Guidelines for Cost Allocations and Affiliate Transactions"; and

WHEREAS, Each State or Federal Regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing; and

WHEREAS, The "Guidelines for Cost Allocations and Affiliate Transactions" are to provide guidance to the states and are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled; and

WHEREAS, The Staff Subcommittees on Accounts, Strategic Issues and Gas should periodically

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### NARUC Resolution Adopting Cost Allocationg and Affiliate Transactions Guidelines

review the Guidelines for Cost Allocations and Affiliate Transactions, taking into consideration the progression of competition in the electric and gas industries nationally, and report their findings, including proposed changes to the guidelines, if necessary, that promote efficiency in competitive energy markets while guarding against cross-subsidization by monopoly ratepayers; now therefore be it

RESOLVED, The Board of Directors of the of the National Association of Regulatory Utility Commissioners (NARUC), convened in its 1999 Summer Meeting in San Francisco, California, adopts the attached "Guidelines for Cost Allocations and Affiliate Transactions"; and be it further

RESOLVED, The NARUC directs the Staff Subcommittees on Accounts, Strategic Issues and Gas, to review the Guidelines for Cost Allocation and Affiliate Transactions, taking into consideration the progression of competition in the electric and gas industries nationally and report their findings to NARUC, including proposed changes to the guidelines, if necessary, on or before January 1, 2001, and annually thereafter, and be it further

RESOLVED, The NARUC applauds and thanks the Staff Subcommittees on Accounts, Gas, and Strategic Issues for their excellent work in developing the guidelines.

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Sponsored by the Committees on Electricity and Finance and Technology

Adopted by the NARUC Board of Directors July 23, 1999

## ATTACHMENT C

### Cost Allocation and Affiliate Transactions Guidelines as adopted by NARUC

#### **Attachment To Resolution Regarding Cost Allocation Guidelines for the Energy Industry "GUIDELINES FOR COST ALLOCATIONS AND AFFILIATE TRANSACTIONS"**

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period

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### Cost Allocation and Affiliate Transactions Guidelines as adopted by NARUC

and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

#### A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.
2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.
6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
7. Direct Costs - costs which can be specifically identified with a particular service or product.
8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.
9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.
10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
11. Non-regulated - that which is not subject to regulation by regulatory authorities.

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### Cost Allocation and Affiliate Transactions Guidelines as adopted by NARUC

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

#### B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.
2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.
3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.
4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.
5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.
7. The indirect costs of each business unit, including the allocated costs of shared services,

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should be spread to the services or products to which they relate using relevant cost allocators.

#### C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.
2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.
3. A description of all assets, services and products provided by the regulated entity to non-affiliates.
4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

#### D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general



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### Cost Allocation and Affiliate Transactions Guidelines as adopted by NARUC

rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.
3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.
4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

#### E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.
2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.
3. Any jurisdictional regulatory authority may request an independent attestation engagement of

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### Cost Allocation and Affiliate Transactions Guidelines as adopted by NARUC

the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

#### F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

ATTACHMENT D

Consumer Advocate  
Division Proposed  
Revised Cost  
Allocation and  
Affiliate Transaction  
Rules.

**Proposed Cost Allocation and Affiliate Transaction Rules for Electric Utilities**

1220-4-4-.55 COST ALLOCATION AND AFFILIATE TRANSACTIONS

(1). DEFINITIONS

- (a) Affiliates - companies that are related to each other due to common ownership or control.
- (b) Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
- (c) Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
- (d) Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- (e) Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.
- (f) Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

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- (h) Direct Costs - costs which can be specifically identified with a particular service or product.
- (h) Fully Allocated Costs - services or products bear the sum of the direct costs plus a proportional share of indirect costs.
- (i) Incremental Pricing - pricing services or products on a basis of only the additional cost added by their operations while one or more pre-existing services or products support the fixed costs.
- (j) Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
- (k) Market Driven - costs are allocated to services or products on a basis equivalent to the costs that would be incurred in the competitive market.
- (l) Non-regulated - refers to services or products that are not subject to regulation by regulatory authorities.
- (m) Regulated - refers to services or products that are subject to regulation by regulatory authorities.
- (n) Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

### (2). COST ALLOCATION PRINCIPLES

- (a) To the maximum extent practicable, in consideration of administrative costs , costs shall be collected and classified on a direct basis for each asset, service, or product provided.
- (b) The general method for charging indirect costs shall be on a fully allocated cost basis.
- (c) To the extent possible, all direct and allocated costs between regulated and non-regulated products and services shall be traceable on the books of the applicable regulated utility to the applicable account as specified in the Uniform System of Accounts. Documentation shall be made available upon request regarding transactions between the regulated utility and its affiliates.
- (e) The allocation methods shall apply to the regulated entity's affiliates in order to

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prevent cross-subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

- (f) All costs shall be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
- (g) The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, shall be identified and used to allocate the cost between regulated and non-regulated services or products.
- (h) The indirect costs of each business unit, including the allocated costs of shared services shall be spread to the services or products to which they relate using relevant cost allocators.

### (3) Cost Allocation Manual (CAM) (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products shall maintain a cost allocation manual (CAM) or its equivalent and shall file, with the Authority on a timely, basis a copy and all changes thereto. Any entity required to provide a CAM(s) shall specifically mark any information included within its CAM that is considered by the utility to be competitively sensitive. At a minimum, the CAM should contain the following:

- (a) An organization chart of the holding company, depicting all affiliates, and regulated entities.
- (b) A description of all assets, services, and products provided to and from the regulated entity and its affiliates. Also, annual revenue by each of these services and products shall be provided.
- (c) A description of all assets, services, and products provided by the regulated entity to non-affiliates. Also, annual revenue by each of these services and products should be provided.
- (d) A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

Entities will follow Statement of Financial Accounting Standards (SAS) No. 131, Disclosures about Segments of an Enterprise and Related Information as required and will make the disclosure available upon request to jurisdictional regulatory authorities.

- (e) A copy of the Authority's administrative rule relative to the cost allocation and affiliate transactions.

(4). AFFILIATE TRANSACTIONS (NOT TARIFFED)

- (a) The price for services and products provided by a regulated entity to its non-regulated affiliates shall be at the higher of fully allocated costs or market prices. As required by regulators, utilities shall provide adequate market and other relevant information where services are provided at market. (Services that are provided to non-related parties under tariffed rates approved by the Authority or other appropriate regulatory authority shall be provided to the affiliate at the tariffed rate.)
- (b) The price for services and products provided by an affiliated company to a regulated affiliate should be at the lower of fully allocated cost or market as determined by the Authority except as otherwise required by law or regulation. (Specific examples of such law or regulations are the provisions of The Public Utility Holding Company Act of 1935 which requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies, and transactions under tariffs approved by the Federal Energy Regulatory Commission (FERC)).
- (c) Transfer of a capital asset from the utility to its non-regulated affiliate shall be at the greater of market price or net book value, except as otherwise required by law or regulation. Transfer of assets from an affiliate to the utility shall be at the lower of market or net book value, except as otherwise required by law or regulation. An appraisal to determine the asset valuation may be required according to value thresholds as determined by the Authority.
- (d) Entities shall maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

(5) AUDIT REQUIREMENTS

- (a) An audit trail shall exist with respect to all transactions between the regulated entity and its affiliates that relate to jurisdictional services and products. The Authority shall have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with these rules.
- (b) Each regulated entity's cost allocation documentation shall be made available to the company's internal auditors for periodic review of the allocation policy and

## ATTACHMENT D

process and to the Authority or as designated by the Authority when appropriate and upon request. Further, the Authority may request in independent attestation engagement of the CAM.

- (c) The cost of any independent attestation engagement, associated with the CAM, shall be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.
- (d) Audit of the CAM does not otherwise limit or restrict the Authority's access to the books and records or of an audit of the operations of jurisdictional utilities.
- (e) Any entity required to provide access to its books and records shall specifically identify all competitively sensitive information.

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Proposed Cost Allocation and  
Affiliate Transaction Rules  
Published in the March 15,  
1999 Tennessee  
Administrative Register

**Proposed Cost Allocation and Affiliate Transaction Rules for Electric Utilities**

1220-4-4-.55 COST ALLOCATION AND AFFILIATE TRANSACTIONS

(1). DEFINITIONS

- (a) Affiliates - companies that are related to each other due to common ownership or control.
- (b) Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is engaged to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
- (c) Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
- (d) Cost Allocators - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- (e) Combinations or Negotiated - combinations of other methods, which may include "the higher of" or "the lower of" several methodologies or other negotiated methods.
- (f) Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.
- (g) Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.



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- (h) Direct Costs - costs which can be identified with a particular service or product.
- (i) Fully Allocated - services or products bear the sum of the direct costs plus a proportional share of indirect costs.
- (j) Incremental - new services or products support only the incremental costs added by their operations while one or more pre-existing services or products support the fixed costs.
- (k) Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
- (l) Market Driven - costs are allocated to services or products on a basis equivalent to the costs that would be incurred in the competitive market.
- (m) Non-regulated - refers to services or products that are not subject to regulation by regulatory authorities.
- (n) Regulated - refers to services or products that are subject to regulation by regulatory authorities.

### (2). COST ALLOCATION PRINCIPLES

- (a) To the maximum extent practicable, in consideration of cost benefit standards, costs shall be collected and classified on a direct basis for each service or product provided.
- (b) The general method for charging indirect costs shall be on a fully allocated cost basis.
- (c) To the extent possible, all direct and allocated costs between regulated and non-regulated products and services shall be traceable on the books of the applicable regulated utility to the applicable account as specified in the Uniform System of Accounts. Documentation shall be made available upon request regarding transactions between the regulated utility and its affiliates.

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### Proposed Cost Allocation and Affiliate Transaction Rules Published in the March 15, 1999 Tennessee Administrative Register

- (e) The allocation methods shall apply to the regulated entity's affiliates in order to prevent cross-subsidization from, and ensure equitable cost sharing between, the regulated entity and its affiliates, and vice versa.
  - (f) All costs shall be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
  - (g) The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, shall be identified and used to allocate the cost between regulated and non-regulated services or products.
  - (h) The indirect costs of each business unit, including the allocated costs of shared services shall be spread to the services or products to which they relate using relevant cost allocators.
- (3) Cost Allocation Manual (CAM)
- Each entity that provides both regulated and non-regulated services or products shall maintain a cost allocation manual (CAM) or its equivalent and shall file, with the Authority on a timely, basis a copy and all changes thereto. Any entity required to provide a CAM(s) shall specifically mark any information included within its CAM that is considered by the utility to be competitively sensitive. At a minimum, the CAM should contain the following:
- (a) An organization chart of the holding company, depicting all affiliates, and regulated entities.
  - (b) A description of all services and products provided between the regulated entity and its affiliates. Also, annual revenue by each of these services and products should be provided.
  - (c) A description of all services and products provided the regulated entity to non-affiliates. Also, annual revenue by each of these services and products should be provided.
  - (d) A description of the cost allocators and methods used by the regulated entity and

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the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

Entities will follow Statement of Financial Accounting Standards (SAS) No. 131, Disclosures about Segments of an Enterprise and Related Information as required and will make the disclosure available upon request to jurisdictional regulatory authorities.

- (e) A copy of the Authority's administrative rule relative to the cost allocation and affiliate transactions.

### (4). AFFILIATE TRANSACTIONS (NOT TARIFFED)

- (a) The price for services and products provided by a regulated entity to its non-regulated affiliates shall be at the higher of fully allocated costs or market prices. As required by regulators, utilities shall provide adequate market and other relevant information where services are provided at market. (Services that are provided to non-related parties under tariffed rates approved by the Authority or other appropriate regulatory authority shall be provided to the affiliate at the tariffed rate.)
- (b) The price for services and products provided by an affiliated company to a regulated affiliate should be at the lower of fully allocated cost or market as determined by the Authority except as otherwise required by law or regulation. (Specific examples of such law or regulations are the provisions of The Public Utility Holding Company Act of 1935 which requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies, and transactions under tariffs approved by the Federal Energy Regulatory Commission (FERC)).
- (c) Transfer of a capital asset from the utility to its non-regulated affiliate shall be at the greater of market price or net book value, except as otherwise required by law or regulation. If no market exists for the asset, a negotiated price no lower than net book value is acceptable. Transfer of assets from an affiliate to the utility shall be at the lower of market or net book value, except as otherwise required by law or regulation. An appraisal to date asset valuation may be required according to

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value thresholds as determined by the Authority.

- (d) Entities shall maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation if longer than three years.

### (5) AUDIT REQUIREMENTS

- (a) An audit trail shall exist with respect to all transactions between the regulated entity and its affiliates that relate to jurisdictional services and products. The Authority shall have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with these rules.
- (b) Each regulated entity's cost allocation documentation shall be made available to the company's internal auditors for periodic review of the allocation policy and process and to the Authority or as designated by the Authority when appropriate and upon request. Further, the Authority may request in independent attestation engagement of the CAM.
- (c) The cost of any independent attestation engagement, associated with the CAM, shall be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.
- (d) Audit of the CAM does not otherwise limit or restrict the Authority's access to the books and records or of an audit of the operations of jurisdictional utilities.
- (e) Any entity required to provide access to its books and records shall specifically identify all competitively sensitive information.

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Consumer Advocate Division  
Comparison of Revised  
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Rules Published in the March  
15, 1999 Tennessee  
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**Comparative Proposed Cost Allocation and Affiliate Transaction Rules for  
Electric Utilities**

1220-4-4-.55 COST ALLOCATION AND AFFILIATE TRANSACTIONS

(1). DEFINITIONS

- (a) Affiliates - companies that are related to each other due to common ownership or control.
- (b) Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting ~~is engaged~~ contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.
- (c) Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.
- (d) ~~Cost Allocators~~ Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- (e) ~~Combinations or Negotiated - combinations of other methods, which may include "the higher of" or "the lower of" several methodologies or other negotiated methods.~~
- (f)( e) Common Costs - costs associated with services or products that are of joint

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benefit between regulated and non-regulated business units.

- (g)(f) Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
- (h)(g) Direct Costs - costs which can be specifically identified with a particular service or product.
- (i)(h) Fully Allocated Costs - services or products bear the sum of the direct costs plus a proportional share of indirect costs.
- (j)(i) Incremental ~~new~~Pricing -pricing services or products ~~support~~on a basis of only the ~~incremental costs~~additional cost added by their operations while one or more pre-existing services or products support the fixed costs.
- (k)(j) Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.
- (l)(k) Market Driven - costs are allocated to services or products on a basis equivalent to the costs that would be incurred in the competitive market.
- (m)(l) Non-regulated - refers to services or products that are not subject to regulation by regulatory authorities.
- (n)(m) Regulated - refers to services or products that are subject to regulation by regulatory authorities.
- (n) Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

### (2). COST ALLOCATION PRINCIPLES

- (a) To the maximum extent practicable, in consideration of ~~cost~~ benefit

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~~standards~~administrative costs , costs shall be collected and classified on a direct basis for each asset, service, or product provided.

- (b) The general method for charging indirect costs shall be on a fully allocated cost basis.
  - (c) To the extent possible, all direct and allocated costs between regulated and non-regulated products and services shall be traceable on the books of the applicable regulated utility to the applicable account as specified in the Uniform System of Accounts. Documentation shall be made available upon request regarding transactions between the regulated utility and its affiliates.
  - (e) The allocation methods shall apply to the regulated entity's affiliates in order to prevent cross-subsidization from, and ensure equitable cost sharing ~~between~~among the regulated entity and its affiliates, and vice versa.
  - (f) All costs shall be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.
  - (g) The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, shall be identified and used to allocate the cost between regulated and non-regulated services or products.
  - (h) The indirect costs of each business unit, including the allocated costs of shared services shall be spread to the services or products to which they relate using relevant cost allocators.
- (3) Cost Allocation Manual (CAM) (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products shall maintain a cost allocation manual (CAM) or its equivalent and shall file, with the Authority on a timely, basis a copy and all changes thereto. Any entity required to provide a CAM(s) shall specifically mark any information included within its CAM that is considered by the utility to be competitively sensitive. At a minimum, the CAM

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should contain the following:

- (a) An organization chart of the holding company, depicting all affiliates, and regulated entities.
- (b) A description of all assets, services, and products provided ~~between~~ to and from the regulated entity and its affiliates. Also, annual revenue by each of these services and products ~~should~~ shall be provided.
- (c) A description of all assets, services, and products provided by the regulated entity to non-affiliates. Also, annual revenue by each of these services and products should be provided.
- (d) A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

Entities will follow Statement of Financial Accounting Standards (SAS) No. 131, Disclosures about Segments of an Enterprise and Related Information as required and will make the disclosure available upon request to jurisdictional regulatory authorities.

- (e) A copy of the Authority's administrative rule relative to the cost allocation and affiliate transactions.

### (4). AFFILIATE TRANSACTIONS (NOT TARIFFED)

- (a) The price for services and products provided by a regulated entity to its non-regulated affiliates shall be at the higher of fully allocated costs or market prices. As required by regulators, utilities shall provide adequate market and other relevant information where services are provided at market. (Services that are provided to non-related parties under tariffed rates approved by the Authority or other appropriate regulatory authority shall be provided to the affiliate at the tariffed rate.)



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- (b) The price for services and products provided by an affiliated company to a regulated affiliate should be at the lower of fully allocated cost or market as determined by the Authority except as otherwise required by law or regulation. (Specific examples of such law or regulations are the provisions of The Public Utility Holding Company Act of 1935 which requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies, and transactions under tariffs approved by the Federal Energy Regulatory Commission (FERC)).
- (c) Transfer of a capital asset from the utility to its non-regulated affiliate shall be at the greater of market price or net book value, except as otherwise required by law or regulation. ~~If no market exists for the asset, a negotiated price no lower than net book value is acceptable.~~ Transfer of assets from an affiliate to the utility shall be at the lower of market or net book value, except as otherwise required by law or regulation. An appraisal to ~~date~~ determine the asset valuation may be required according to value thresholds as determined by the Authority.
- (d) Entities shall maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation. ~~if longer than three years.~~

### (5) AUDIT REQUIREMENTS

- (a) An audit trail shall exist with respect to all transactions between the regulated entity and its affiliates that relate to jurisdictional services and products. The Authority shall have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with these rules.
- (b) Each regulated entity's cost allocation documentation shall be made available to the company's internal auditors for periodic review of the allocation policy and process and to the Authority or as designated by the Authority when appropriate and upon request. Further, the Authority may request in independent attestation engagement of the CAM.

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- (c) The cost of any independent attestation engagement, associated with the CAM, shall be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.
- (d) Audit of the CAM does not otherwise limit or restrict the Authority's access to the books and records or of an audit of the operations of jurisdictional utilities.
- (e) Any entity required to provide access to its books and records shall specifically identify all competitively sensitive information.